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# Panama: Implications of the Political Transition

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An Intelligence Assessment

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ALA 82-10130  
September 1982

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# **Panama: Implications of the Political Transition**

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**An Intelligence Assessment**

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This assessment was prepared by [ ] the Office of African and Latin American Analysis, Middle America/Caribbean Division, Central America Working Group. Economic analysis was contributed by [ ] also of the Central America Working Group. It was coordinated with the Directorate of Operations and the National Intelligence Council. Questions and comments are welcome and may be addressed to the Chief, Middle America/Caribbean Division, ALA, [ ]

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September 1982*

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**Panama:  
Implications of  
the Political Transition**

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**Key Judgments**

*Information available  
as of 21 September 1982  
was used in this report.*

The death of Panamanian strongman Omar Torrijos in July 1981—during the democratization he initiated—left a power vacuum that surfaced long-standing tensions within the military and between the military and the civilian administration. These strains produced shakeups this year in both institutions, culminating in the installation of conservative President Ricardo de la Espriella and a cabinet of technocrats more favorably inclined toward the National Guard. Pressures have eased, but the paramount questions of leadership and foreign and domestic policies remain. As Panama undergoes its most difficult political transition in over a decade, looking toward open presidential elections in 1984, internal tensions are likely to resurface in ways that could jeopardize democratization and affect relations with the United States.

We believe that the forced resignation of President Royo on 30 July demonstrated genuine concern among senior National Guard officers over their ability to control the transition. The change of government signals a continuation of the rightward shift in Panamanian foreign and domestic policy begun by Torrijos, as military leaders weigh the growing strength of opposition groups and the need to attract the financial assistance and investment needed to stem the nation's current economic decline.

At the same time, in our judgment, the regime needs to maintain the trappings of progressive *torrijismo* to satisfy its grass-roots constituency on the left. This task would have been difficult even for the politically clever and charismatic Torrijos, and we believe none of the current leaders have his skills. National Guard Commander Paredes is popular, however, and probably will represent the regime in the 1984 presidential election. The General Staff has mapped out the command of the Guard over the next two years in a way that should help limit rivalries.

The political transition and possible rivalries in the Guard will be complicated by new strains in the economy that are contributing to growing unemployment—currently estimated at between 15 and 20 percent overall—and the government's aggressive austerity program aimed at reducing the national debt will probably prove unpopular. Although the new government appears interested in working with business and labor leaders to avoid a major recession, we anticipate some street demonstrations and work stoppages as economic issues are exploited by political groups before the elections.

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During the period of this assessment, we believe leftist groups will remain largely acquiescent but some small radical Marxist factions could grow more restive if they perceived that the rightward shift in Panamanian politics was threatening to exclude them definitively from any role. These elements, with ties to Cuba and regional revolutionary groups, would be capable of engaging in some subversive activities, but lack the domestic base to sustain actions against the regime.

Between now and the 1984 elections, in our judgment, Panama's foreign policy will continue to moderate. Long before Royo's ouster, Panamanian concerns over revolutionary turmoil and Cuban intervention in Central America were producing more conservative and pragmatic policies toward the region as a whole. The change of government in July will reinforce this trend, we believe, and improve the chances of Panamanian support for some US initiatives in the region—although Panama will prefer those with multinational backing and focus. We estimate that Panama's interest in greater economic cooperation with the West—combined with a more conservative domestic atmosphere—also stands to contribute to continued improvement of relations with the United States in other policy areas.

Nevertheless, we believe that Panama's intense nationalism and self-styled neutrality will prevent across-the-board cooperation with the United States. We expect, for example, the new government—with the approval of the National Guard—to maintain diplomatic and clandestine links to Cuba to enhance Panama's position with the nonaligned countries and to insulate itself against Cuban-backed subversion.

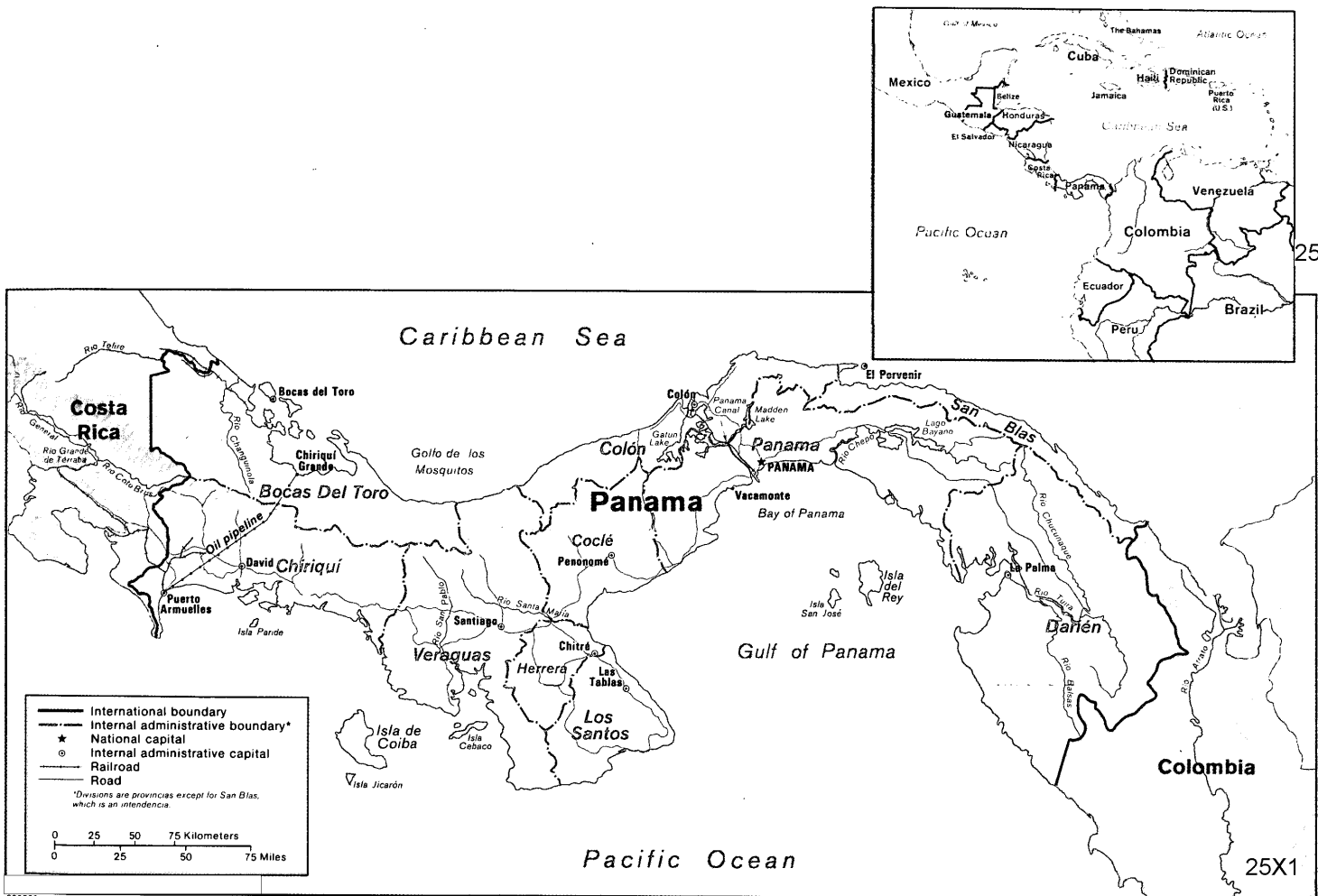
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**Panama:  
Implications of the  
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**Introduction**

In 1978, National Guard Commander Torrijos—his battle with the United States over the Canal resolved and weary of the daily demands of personal rule—decided to begin a process to restore democratic government in Panama. This, he believed, would in turn enhance the legitimacy of the military as an institution and ensure its future political influence. Torrijos stepped down as head of government, appointed a young leftist, Education Minister Aristides Royo, to serve for six years as President, and announced that the National Guard was “returning to the barracks.” Torrijos also created the official Revolutionary Democratic Party (PRD) to organize the diverse interest groups co-opted by the regime into one broad electoral vehicle. Partial legislative elections were held in September 1980, and full legislative and presidential contests were scheduled for the fall of 1984.<sup>1</sup> It was assumed that Torrijos would carefully monitor and control the political transition.

Torrijos's death on 30 July last year not only placed this process in doubt but raised questions about the prospects for continued stability in Panama. The general left behind a regime that was relatively corrupt, mismanaged, and divided along ideological and personalist lines. With no designated successor, the stage was set for an institutional power struggle among ambitious military officers, whose rivalries traditionally had been suppressed only by loyalty to the general. Moreover, without Torrijos's protection, the weak left-of-center civilian administration faced a more conservative National Guard that had long disapproved of President Royo and his domestic and foreign policies.

<sup>1</sup> In 1984, the Assembly of Community Representatives—a body of 505 local officials with limited legislative powers that meets for one month a year—will begin a new six-year term. The National Legislative Council—a 56-man forum heretofore only partially elected by popular vote—will begin a new two-year term. A new president will be elected to a six-year term.

We believe that the loss of Torrijos initially inspired Panamanian leaders to attempt to preserve the status quo. Antagonistic elements within the regime appeared willing to restrain their ambitions in order to project an image of unity and to assuage public concern over political stability. Early this year, however, the vacuum left by Torrijos led to intense political maneuvering and finally to shakeups within the military and the civilian government.

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The removal of President Royo by senior National Guard officers on 30 July, the anniversary of Torrijos's death, constituted the most dramatic incursion by the military into government since the 1968 coup and left Panama at a political crossroad. Although we doubt that the regime is retrenching to more authoritarian control, Panamanian leaders almost certainly are reassessing the risks of democratization to their power. As a result, the political transition leading to presidential elections in 1984 is likely to trace an uneven course.

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**Domestic Issues**

**Political Role of National Guard**

Since the consolidation of its power in the early 1970s, the National Guard has been chiefly concerned with ensuring domestic order and safeguarding military interests. To this end, the regime co-opted elements from both ends of the political spectrum, while exiling or intimidating those in opposition. Because of his leftist sympathies and his perception that Marxist groups posed a more immediate threat, Torrijos put greater emphasis on accommodation with these elements. Conservative senior officers were also co-opted, although some remained concerned over leftist influence in government. Indeed, when Torrijos ceded partial power to civilian leftists by removing himself and other officers from the government in 1978, the move unnerved conservatives in the Guard.

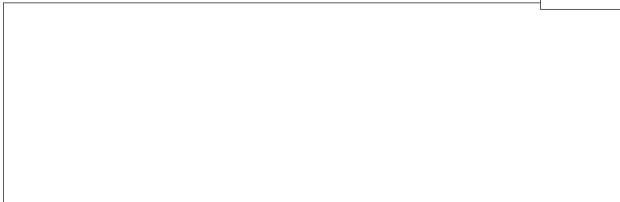
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The death of Torrijos last year heightened these concerns over the left-leaning civilian government.



In our opinion, Royo recognized that he could be forced out of office at any time, however politically awkward his removal might be for the Guard.



Nevertheless, the timing and method of Royo's removal were unexpected. We believe it resulted primarily from the personal ambitions of National Guard Commander Paredes, who was increasingly anxious to manipulate the government more directly and prepare for the presidency in 1984. The political climate began to sour this summer as a result of the President's inability to resolve a highly publicized teachers strike, sensational media exposure of corruption within the administration, and growing public concern over the economy. On 30 July—with the public distracted by official ceremonies commemorating the first anniversary of Torrijos's death—Paredes and other Guard leaders forced Royo to resign and transferred the office to Vice President Ricardo de la Espriella.

**Guard Relations With the New Government.** Immediately upon assuming the presidency—a position he had long coveted—de la Espriella pledged publicly to



Ricardo De La Espriella

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uphold *torrijismo* and guarantee an honest presidential election in 1984. The new President is well known in Panama and abroad as a competent administrator and financial expert. He is conservative, professional, and enjoys wide personal ties to political and economic interest groups and to National Guard leaders. His Cabinet largely comprises conservative technocrats who also enjoy the favor of key military officers and the business community.

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We believe, however, that despite de la Espriella's smooth ascension to power, he faces difficulties over time with the military. US Embassy reporting demonstrates, for example, that the new President and other officials already are worried about the extent of military influence in government. Panamanian civilian leaders were embarrassed and upset by the strident public "recommendations" of General Paredes following Royo's ouster, which outlined some of the military's prescriptions for government policy. Most dramatic was Paredes's arbitrary closure of all Panamanian newspapers and the creation of a committee to oversee future media reporting.

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US Embassy reporting suggests that de la Espriella views such heavyhanded action by the military as injurious to his own effectiveness as head of government. He canceled the injunction against the press

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within a few days and reinstated the long-revoked licenses of two opposition journalists. Nevertheless, public exposure of the Guard's sabotage of equipment belonging to the country's preeminent opposition newspaper has blemished the government's pledge to safeguard the democratic process in Panama. [ ]

most observers believed that Florez was not shrewd enough to fill Torrijos's shoes and would serve as commander only temporarily. [ ]

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We believe, therefore, that any additional arbitrariness by the military will increasingly strain the new President's relations with senior Guard officers. The same can probably be said about some new Cabinet members who, according to US Embassy sources, are linked to specific Guard officers. They may face increasing and perhaps contradictory pressures from the Guard over policy issues, particularly if the personal ambitions of key Guard officers lead to serious rifts within the General Staff. [ ]

Florez's interest in continuing Torrijos's policy of limiting the Guard's role in politics worried fellow officers, according to US military sources. By the end of last year, some senior officers were losing confidence in Florez's leadership, questioning his acquiescence in the policies of President Royo, and suspecting that the new Guard commander was planning to stay in power indefinitely. There was some truth to such reports, but General Staff officers—principally Lieutenant Colonels Paredes, Noriega, and Diaz Herrera—were primarily concerned that their own influence within the military might be waning. [ ]

**General Staff Rivalries.** Relations between the new civilian government and the National Guard—and indeed the success of the political transition—will depend heavily on the internal politics of the General Staff. The most important question is who will control the Guard—and thus the bulk of political power—after Paredes retires some time during the coming year to run for president. [ ]

In March 1982, Florez's colleagues forced him to retire. Although the incident is still not fully understood, his departure caused the first serious crack in the post-Torrijos arrangement of collegial Guard leadership. The General Staff was restructured, and the next senior officer, Paredes, assumed command of the Guard as full colonel. Loyal junior officers also were quickly advanced. In late April Paredes was promoted to general, while his staff level colleagues became full colonels. [ ]

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The Guard has a long history of power struggles and cliques; indeed some military leaders maintain rivalries that date back more than a decade. Despite this, according to US military reporting, key General Staff officers have been striving to cooperate since Torrijos's death to avoid a crisis in the officer corps that might undermine both the military and the government. Such efforts succeeded well into 1982, but may have suffered some setbacks since midyear. [ ]

Although important military and political issues are usually discussed jointly within the institution by members of the General Staff, we believe that General Paredes has the last word. [ ]

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At the time of Torrijos's death, Chief of Staff Colonel Florez (next in line) was awaiting retirement when the nine lieutenant colonels of the high command appointed him as the new commander. The only full colonel on active duty, Florez was widely respected for his honesty, impartiality, and professionalism. According to US military sources, he seemed well suited as referee among rival officers because he was thought to harbor few personal ambitions. At the same time, [ ]

In our judgment, senior Guard officers will continue to cooperate more to achieve their individual interests over the near term. This attitude is reflected in the General Staff's arrangement for the retirement of [ ]

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Paredes next year, and the succession plan for military leadership over the next two years. According to a US military source with good access, this plan calls for Paredes to delay retirement until candidate filing deadlines and other dates for the election are established. The relatively neutral Chief of Staff, Colonel Contreras, reportedly will command the Guard until the end of the presidential campaign, when he will retire. This formula provides Paredes with a buffer period between his departure from the Guard and the presumed succession of his rival Noriega to the post of commander. [ ]

We believe that Noriega recognizes that the arrangement assures him command of the Guard and will patiently wait his turn. With some five years left before customary retirement, he can afford to honor the sequence of command. This arrangement, however, could sour and become more complex through disagreement over foreign or domestic policies or the pace and direction of the democratic opening. Moreover, any effort by Paredes or other Guard leaders to force him out of line would almost certainly prompt a showdown. [ ]

#### Politics of Democratization

Individual rivalries in the Guard, in our judgment, pose less of a threat to democratization than collective concern in the General Staff that the process could result in the Guard's exclusion from power. It was, we believe, genuine concern on the part of General Paredes and other senior military officers that Royo was discrediting the government and jeopardizing the regime's chances for legitimate victory in 1984 that led to the President's ouster. We also believe that the new conservative, probusiness government is designed to generate greater public and investor confidence in the regime, contribute to an improved economic climate, and produce wider political support among grass-roots interest groups. Additionally, in our opinion, the regime's civilian and military leadership perceives that electoral victory may hinge on its ability to co-opt at least some of the conservative opposition groups, which collectively probably represent a majority of the Panamanian electorate. [ ]

#### Top Guard Leaders



**National Guard  
Commander, Gen.  
Ruben Dario Paredes**

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*At age 48, General Paredes is among the brightest and most popular of the senior officers and second only to the late Torrijos in public prominence. Following the 1968 coup that forged the current regime, Paredes became the Guard's chief of operations, and, during the mid-1970s, he served as both the military chief of personnel and Minister of Agriculture in the civilian administration.*

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*According to US Embassy sources, Paredes is anti-Communist and pro-United States and has close ties to conservative technocrats in the government and top representatives of the business community. In addition, US military reports indicate that he maintains contacts among Panama's influential leftist elements, including the progovernment Marxist-Leninist Circle known as the Fraccion/Tendencia.*

*Whenever he chooses to retire, Paredes will begin active campaigning for the 1984 presidential election. Presumably, he will seek nomination of the official Revolutionary Democratic Party. [ ]*

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*[ ] the PRD might not be sufficiently reorganized for what promises to be a difficult election, and Paredes could decide to build some new coalition of progovernment elements while also trying to co-opt conservative opposition parties.*

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**Chief of Intelligence,  
Col. Manuel Noriega**

Widely regarded as corrupt, Noriega was Torrijos's principal henchman for 13 years. He has built a network of wealth and power that extends well beyond the military institution. As head of all intelligence activities in Panama, the 46-year-old Noriega is in a position to know much about the professional and private lives of military and civilian officials.

[redacted] Noriega is apolitical, unprincipled, and generally lacking in substantive interests beyond power and personal gain. We believe, therefore, that his longtime dealings with Cubans and regional Marxist elements are attributable more to pragmatism than to ideological sympathy for their activities. Clearly, he also has a professional obligation to monitor their activities and maintains extensive contacts in and out of Panama for this purpose.

Nevertheless, we do not consider Noriega a friend of the United States. According to US military sources, during the Canal treaty negotiations, he prepared contingency sabotage plans against US military facilities. His pragmatism allows some cooperation with the United States, including the exchange of information.

Noriega enjoys little popularity in Panama, but his position on the General Staff has gained him a sizable following within the officer corps and the enlisted ranks.



**Chief of Operations, Col.  
Roberto Diaz Herrera**

Politically to the left of other top Guard officers, the 44-year-old Diaz Herrera was a cousin and close confidant of Torrijos, to whom he owes his rapid rise in the officer corps. Torrijos reportedly was grooming him as a potential heir. Until the 3 March shakeup, Diaz Herrera had served as executive secretary to the General Staff, the post from which Torrijos launched his 1968 coup. US Embassy and military reporting characterizes the colonel as a highly intelligent, articulate, and dedicated soldier. 25X1

According to US military sources, he believes in cooperating with the United States on bilateral matters, such as Canal treaty implementation. As a strong nationalist with socialist proclivities, however, he also favors continued good relations with Cuba and the nonaligned countries.

With five years left before customary retirement, Diaz Herrera appears to have considerable opportunity to gain greater power in the Guard. [redacted] 25X1

[redacted] he has been working more closely with Noriega since Torrijos's death, however, out of concern that Paredes and other more conservative officers might try to isolate him or remove him from the General Staff. 25X1

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**Conservative Opposition.** After Torrijos initiated the political opening in 1978, public criticism began to rise over the regime's mismanagement, corruption, and the leftist bent of the civilian administration. In the fall of 1979, an eight-week teachers strike evolved into an unprecedented outpouring of middle class discontent with government policies in general. Following the strike, conservative parties and groups emerged from a decade of inactivity to take advantage of the more open political environment. US Embassy reporting suggested that most of the opposition was still either unprepared or unwilling to participate in the September 1980 National Legislative Council elections. Nevertheless, two parties—the center-right Liberals and Christian Democrats—surprised the government by together gaining 35 percent of the popular vote and seven of the 19 seats contested. The official Revolutionary Democratic Party (PRD) was disappointed at receiving only 41 percent of the vote and 10 seats. [ ]

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In the months preceding Torrijos's death, the regime appeared increasingly concerned with the potential challenge from conservative forces in 1984. Early last year, US Embassy reports noted that Torrijos had begun to restructure the PRD along more centrist lines. [ ] he delegated more authority to party moderates and stopped attempts by leftist officials to align the party with the Socialist International. [ ]

At the same time, the official media became more conciliatory toward elements of the conservative opposition, a sign that the regime was looking for ways to co-opt center-right parties. The Liberal Party's 1981 national convention, for example, was widely heralded by the government press, and the president of the PRD-controlled legislature extended his personal congratulations. This prompted Liberal Party leaders to deny publicly that they were considering any alliance with the government in 1984. [ ]

We believe that the death of Torrijos gave further impetus to regime efforts to accommodate the right. According to the US Embassy, many in the government had assumed that the General would be running for the presidency in 1984 and believed that without him the regime would either have to join with the

opposition or lose the elections. Various US Embassy [ ] sources indicate that over the past year the regime has attempted to woo the opposition to support or at least acquiesce in the candidacy of General Paredes. Government newspapers have predicted that some conservative parties would eventually support Paredes's bid. [ ]

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US Embassy reports indicate, for example, that a business executive and member of the traditional Republican Party was asked early this year to share the 1984 ticket with Paredes. Moreover, Panama's Ambassador to the United States, Aquilino Boyd—a prominent Liberal Party leader—unilaterally has embraced the candidacy of Paredes, publicly calling on all parties to support the National Guard and unify the nation. Privately, Boyd has expressed to US Embassy officials his belief that conservative military officers like Paredes need greater popular support to insulate the regime from "Communist" elements. [ ]

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The ultra-nationalist Panamenista Party is preeminent among conservative opposition groups that the regime would like to influence, according to US Embassy officials. The party and its predecessors have been the personal vehicle of three-time President Arnulfo Arias for a half century. US Embassy sources indicate that Arias is so pivotal a figure—he was Panama's last popularly elected chief of state—that he still is perceived by the regime as its greatest single political threat. [ ]

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With command of over 100,000 Panamenista Party supporters, Arias is viewed locally as a potential joint standard bearer for other less cohesive conservative groupings. Some US Embassy officials have estimated that Arias alone could receive 40 percent of the popular vote in an honest election. This would almost certainly constitute a plurality over any official candidate also facing opponents from several smaller parties. [ ]

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We believe, however, that for Arias—who is 81 and ailing—the prospects for another presidential bid in 1984 are slim. His greatest influence may be that of kingmaker. The aspirations of General Paredes and

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Arnulfo Arias Madrid ©

other political and military leaders could rest on their ability to reach some arrangement with Arias. US Embassy and other reports over the past year have indicated that private meetings among Arias, other opposition leaders, and regime officials have become more frequent. Since Royo's ouster, opposition parties have demonstrated publicly and privately their support for President de la Espriella, who has begun a series of private discussions with the Panamenistas and other parties over the electoral process.

by the government. The progovernment, Moscow-line People's Party—which last year registered for the 1984 elections—has perhaps 1,000 card-carrying members.

The largest Marxist organization may be the Fraccion/Tendencia, which has between 1,000 and 1,500 members and supporters. Castroite and militant, the organization nevertheless also remains progovernment, with many members serving in the bureaucracy and holding important positions in the official party. Other tiny, more radical groups operate on school campuses and participate in occasional street demonstrations.

With the possible exception of a few small factions of antigovernment radicals—who are easily contained by the National Guard—we judge that Panama's Marxist and non-Marxist groups will continue to cooperate with the present regime in an effort to maintain their bargaining power. The Communist Party, for example, has publicly called for support of the de la Espriella government. In addition, leaders of the left wing of the official PRD have traveled to Nicaragua and other "progressive" countries to voice support for the new administration and to assuage concerns that Panama's foreign policy may now shift to the right.

**The Left.** The domestic left is solidly represented in the government bureaucracy and is in control of a significant minority of organized labor, but as a political force in Panama, it ranks after the National Guard, the government, and the rightist opposition. The left's poor showing in the 1980 legislative elections, followed by Torrijos's sudden death and the recent ouster of Royo, probably has convinced many leftist leaders that the political pendulum is swinging away from them and that they stand to lose considerable influence in government and the official party.

In our judgment, however, continued leftist cooperation with the regime will be contingent upon the willingness of military and civilian conservatives in government to maintain some of the public trappings of the Torrijos era and to protect the political and material perquisites of key leftist leaders. For the moment, we see no reason to doubt that this will be the case. The recent confirmation of prominent leftist Jorge Illueca as Vice President was, according to US Embassy sources, an effort to placate old guard leftists in the regime.

Panama's doctrinaire Marxist community probably is less than 3,000 and is distributed among several rival groups whose activities generally stay within the bounds established

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**Panamanian Parties and Groups**
**Registered Parties**

**Revolutionary Democratic Party (PRD)** is the official party of the current regime. It was created by Omar Torrijos in 1978 as a grass-roots vehicle to overcome challenges posed by the broad conservative opposition. The party leadership primarily comprises Torrijos family members and professional associates of the deceased General. Seriously divided between the dominant leftist faction and moderate conservatives, the party is undergoing reorganization as a result of its poor showing in the legislative elections of 1980.

**Liberal Party (PL)** traces its lineage back to pre-independence Panama and remains a largely personalist vehicle for its affluent leaders. Although nominally reunified, the party remains divided among three major factions, all of which are predominantly center right in orientation. Despite its fractious internal politics, Liberals won five of 19 legislative seats in the 1980 elections.

**Christian Democratic Party (PDC)** remains modest in size but increasingly visible since it won two seats in the 1980 elections. Although ostensibly a party of social reformers, its strong attacks against what it views as the socialist bent of the regime underscore its basic center-right orientation.

**Popular Action Party (PAPO)** was formed in 1980 out of elements of the traditional Social Democratic Party, although its leadership appears essentially center to center right in orientation. The party boycotted the 1980 elections but may challenge the official party in 1984—presumably in coalition with other opposition groups. PAPO leaders figure heavily in the publication of the strident conservative opposition newspaper *La Prensa*, also founded in 1980.

**Broad Popular Front (FRAMPO)** was created in 1979 as a progovernment left-of-center alternative to the official PRD. Although privately supported by Torrijos, the party demonstrated negligible public support in the 1980 election. It remains largely composed of professionals and some government employees, but has distanced itself politically from the government during the past two years.

**People's Party (PdP)** is Panama's traditional Moscow-line Communist Party. Now over 50 years old, the party was co-opted by Torrijos and remains progovernment. Believed to be only some 1,000 strong, the party vocally supports regional insurgent groups but is itself relatively passive.

**National Republican Liberal Movement (MOLIRENA)** was formed last year out of a core of smaller center-right groupings. It registered in July with some 50,000 signatures.

**Unregistered Parties**

**Panamenista Party (PP)** is the country's largest opposition grouping. Ultranationalist and conservative, the party has begun to moderate somewhat its strident rhetoric against the regime. Internal divisions have plagued the party in recent years; although patriarch Arnulfo Arias still commands the bulk of the party, a dissident faction was formed last year. The government ruled that the dissidents could maintain party emblems and slogans, hence the dominant Arias faction now calls itself the Authentic Panamenista Party and apparently plans to register for the 1984 elections.

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**Agrarian Labor Party (PLA)** is a re-creation of a larger grouping of the same name that was active in the 1960s. Organized in 1979, it appears to have little chance of meeting registration requirements but may seek to promote its center-right political platform through a coalition in opposition to the government in 1984.

**Republican Party (PR)** is another small right-of-center grouping with roots to a larger namesake of the 1960s. It may try to participate in 1984 as a member of some coalition.

**National Opposition Front (FRENO)** was formed by eight opposition parties in 1980 but now appears moribund, as member groups have become divided or are seeking to build another coalition for the 1984 elections.

**Popular Nationalist Party (PANAPO)** was created last year as a personal electoral vehicle for student activist Olimpo Saez. It is ultranationalist and anti-Communist.

#### **Leftwing Groups**

**Socialist Workers Party (PST)** is the only other Marxist political grouping—apart from the Communist Party—seeking to participate in the 1984 elections. Recent registration efforts have netted some 11,000 subscribers.

**Marxist-Leninist Circle**, known as **Fraccion/Tendencia**, is a radical militant splinter group that broke away from the orthodox Communist Party in 1974. It is progovernment, and many of its reported 1,000 to

1,500 members work in the government and the official party. It maintains close ties to the Cubans and regional revolutionary groups.

**Panamanian Student Federation (FEP)** has a large membership in Panama's university and high schools. Also largely co-opted by the Torrijos regime, it is controlled by the **Fraccion/Tendencia** and given to periodic street demonstrations, usually over issues involving US regional policy.

**University Anti-Imperialist Front (FAU)** was formed in 1977 and is a militant student front for the Communist Party. Its counterpart in the high schools is known as the **Secondary Front (FAS)**.

**Revolutionary Student Front (FER)** was founded in 1974 as a challenge to progovernment student groups. It is much smaller than **Fraccion/Tendencia** or **FEP**, but believed to be better organized.

**Socialist Revolutionary Faction (FSR)**, formed in 1975, is a small but highly militant Trotskyite group, antigovernment, and capable of violence.

**Guaykucho** is a tiny militant Marxist faction with ties to the **FER**. Its members are based in the city of Colon and are believed to own small arms and explosives.

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**Economic Issues and Prospects**

**Current Problems.** Panama's faltering economy poses potentially serious complications for the political transition. As reflected in US Embassy reporting, one of the reasons that National Guard leaders replaced President Royo with de la Espriella was their hope that he could stabilize the economy sufficiently by 1984, so that it would not be a serious liability for the official presidential candidate. Their concern arises from recognition that Panama's economy, the most buoyant among all Central American countries since 1977, has slowed down substantially. During 1978-80 a surge of private investment, stimulated by ratification of the Panama Canal treaties and a more determined government effort to rein in public-sector financial excesses, underpinned annual GDP growth of more than 6 percent. The services and industrial sector led the economic expansion, reflecting in large part a sharp rise in Panama-based foreign banking operations and rapid development of the Colon Free Zone. [redacted]

Since that time, however, economic activity has been depressed by sagging demand for Panamanian goods and services—especially in the United States and neighboring Latin American countries—and by low world market prices for key commodity exports. Restrictive government policies aimed at bringing under control its large and swelling foreign debt are further braking growth. According to the US Embassy, growth last year fell below 4 percent for the first time since 1976 and may drop close to 1 percent this year. [redacted]

Even a brief economic slump will present potentially serious challenges for the new administration, especially with the country's large and growing unemployment rate. A stagnating agricultural sector, the most labor-intensive activity in an unusually capital-intensive LDC economy, has caused growing unemployment. The rise in the number of jobs generated in the urban-based services and industrial sectors has failed to keep pace with the flow of new entrants to the labor force. Meanwhile, enormous debt servicing obligations resulting from frequent past recourse to deficit financing have seriously constricted the government's fiscal capability to deal with unemployment. Clearly, as the economy languishes this year and probably

**The Panamanian Economy****Domestic Growth**

*The dominant services sector, long the most dynamic part of the Panamanian economy, is continuing to grow but at a much reduced pace from that of 1978-80. Toll and fee receipts from the Panama Canal Commission registered only small gains last year and probably will do so again this year because of sluggish international trade. Also this year, as in 1981, regional instability is likely to prevent any appreciable growth in tourism, especially US visitors. Expansion of Panama's major offshore banking network will probably taper off this year because of the temporarily diminished attractiveness of lending in Latin America.*

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*Manufacturing production declined in 1981, largely as a result of a three-month oil refinery shutdown, and almost certainly will show little or no growth this year. Domestic demand for both consumer goods and construction materials is sagging. Moreover, the manufacturing sector is hard hit by the loss of important Central American markets because of worsening regional economic and security conditions. Construction, following boom years in 1979 and 1980, slumped in 1981 and is continuing to fall this year. The sizable reduction in demand for residential and commercial building in Panama is being only partly offset by work on the trans-Panama oil pipeline and on major port, hydroelectric, and public housing projects.*

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*Agriculture has fallen since 1977, largely because of food price controls, high costs of inputs, insufficient credit and technical assistance, poor land use, and inadequate agricultural transportation and storage*

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facilities. Banana production so far in the 1980s has remained below levels attained in the late 1970s, reflecting the effects of adverse weather, strikes, and mismanagement. Precipitous drops in world prices and US import quotas have damped investment and hindered sugar output. Shrimp farming, a major growth industry in Panama over the past decade, was hurt last year by low market prices, but we expect it will regain some momentum this year.

#### **External Accounts**

Panama's current account balance has not varied greatly since the early 1970s despite several rounds of large oil price hikes. Panama regularly ran current account deficits ranging from \$100 million to \$250 million in 1973-80, as large net merchandise imports were partly, but not entirely, offset by net service exports (such as income earned from the Panama Canal, offshore banking operations, and tourism). The country avoided major increases in its oil import bill through conservation and rapid development of hydroelectric power. In 1981, however, shortfalls in export revenue caused Panama's deficit to jump to \$355 million.

Large and growing debt amortization obligations are also compounding the effects of sluggish foreign exchange earnings to put added pressure on Panama's balance of payments. The country's foreign financing requirements last year rose to more than \$700 million to cover a current account deficit and debt repayments of roughly equal magnitude. Once again the government had to borrow heavily on expensive international capital markets to meet its needs. This year, continued bleak prospects for export earnings and a government commitment under a

recent IMF loan agreement to hold public-sector deficits and foreign borrowing in check are unlikely to permit much if any real growth in Panama's imports.

#### **Socioeconomic Indicators**

High unemployment has plagued Panama since the mid-1970s. Although official sources claim the unemployment rate to be 9 percent, more realistic private estimates place the percentage twice as high. In some of the poorer sections of Panama City and Colon, the unemployment rate may be 35 percent or more. Those parts of the economy that are experiencing the most rapid growth this year are generally in the services sector, which—remarkably—is the least labor intensive. The decline in agriculture also is causing an expansion of underemployment in the rural countryside. Many of the more acute instances of poverty, in fact, are concentrated in these areas of Panama.

Following two years of accelerating inflation, cost of living pressure began to ease in 1981. Consumer price growth fell from 13.8 percent in 1980 to 7.3 percent last year and may subside further this year. (Price behavior in Panama tends to follow patterns set in the United States because the US dollar is used as legal tender in Panama.) The passage of a law in 1981 by the Panamanian Government granting average wage increases for the private sector that exceeded the rise in consumer prices left many employed workers at least slightly better off in real terms than they were the previous year.

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much of next, Panama's 15- to 20- percent unemployment rate will grow. Even before becoming President, de la Esprilla had repeatedly voiced concern over the swelling ranks of jobless, and he will undoubtedly monitor closely future unemployment trends because of their potential for precipitating social and political unrest. [ ]

**Economic Prospects.** Prospects for recovery by 1984 are good, but will continue to depend on sound economic management and political stability. Working to Panama's advantage will be strengthened foreign markets and export prices, the country's experience and reputation as a regional financial and commercial center, a sizable amount of land and facilities from the old Canal Zone that reverted to Panamanian use, completion of the trans-Isthmian oil pipeline, availability of extensive modern transportation and other public service facilities, and reduced dependency on foreign energy sources because of hydroelectric development. [ ]

To fully exploit the growth opportunities ahead, however, the government will need to restrain its own role in the economy and increasingly encourage private-sector initiative. Policies under consideration that would serve this aim include strong foreign investment incentives, relaxation of labor code burdens on business, liberalization of price controls, and government sales of financially burdensome enterprises to private interests. Private investment will be affected by the campaign preceding the election in the fall of 1984. A perception of political uncertainty could retard private investment, although at the moment it appears that government leaders will continue conservative, probusiness policies. [ ]

### Foreign Policy Issues

#### Dealing With Cuba and Central America's Turmoil

The politics of transition to full civilian rule at home also have had significant implications for Panama's role in the unsettled Central American region. [ ]

[ ] during the past 18 months Panama has been moderating its regional and Cuban policies. This has included reduction of sub-rosa

cooperation with the Castro regime, a cooling of ties with Nicaragua's Sandinista-controlled government, and greater restrictions on local and official support for regional guerrilla groups. [ ]

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We believe this trend reflects the growing concern of the National Guard over Communist-supported revolution in Central America, as well as a pragmatic desire for closer economic and political ties to the West. Nevertheless, we believe Panama is likely to maintain diplomatic and some clandestine links to Havana indefinitely, to protect its position with non-aligned countries, and to insulate itself against Cuban-backed subversion. [ ]

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**Policy Under Torrijos.** Torrijos restored formal relations with Cuba in 1974, in part to help co-opt the domestic left and to gain support from Third World governments before confronting the United States on the Canal issue. Panama's banking facilities and free trade zone offered Cuba badly needed commercial expansion, while Torrijos's tolerance and eventual aid gave Castro a solid base for supporting revolution in other mainland countries. At the same time, according to US Embassy reports, Torrijos often walked a fine diplomatic line on Cuba to avoid antagonizing Washington. He also was sensitive to public opinion in Panama, which was unreceptive to close ties with Communist or other radical governments. [ ]

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Within weeks after seizing power, however, the Sandinistas spurned Torrijos's advisers and plans to send aid, opting instead for virtually exclusive support from Cuba, the Soviet Bloc, and radical Arab governments.

the influx of US military aid underscored Panamanian arguments for political solutions to regional problems. Torrijos—in concert with other foreign leaders—tried to organize international mediation efforts to end the conflict in El Salvador. [REDACTED]

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Torrijos did not abandon efforts to broaden his influence elsewhere in Central America, hoping to head off a more serious regional conflict. In El Salvador,

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[REDACTED] Torrijos courted individual military officers in an attempt to steer the Salvadoran armed forces toward a more progressive, and, in his view, pragmatic course. At the same time, [REDACTED] he was advising and aiding Salvadoran insurgents. This was, in our judgment, an effort to soften their allegiance to Havana. We believe he also wanted to build bridges to the guerrillas in the event they might achieve victory [REDACTED]

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In our view, Panamanian concerns over events in Central America were heightened by the change of US administrations in 1981. [REDACTED]

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[REDACTED] many Panamanian leaders believed that Washington would begin to act more forcefully against Cuba and its surrogates, leaving Panama's self-styled neutrality vulnerable to US pressure and possibly forcing the Panamanians to choose between the region's conservative governments and Marxist revolutionary groups. The failure of the Salvadoran guerrilla offensive in January 1981 and

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**Cuban Activities in Panama**

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Although the number of diplomatic personnel has changed little over the past year, there reportedly has been an increase in "temporary" personnel associated with Cuban commercial interests in Panama. This appears primarily attributable to the increase in the number of joint Panamanian-Cuban businesses. The temporary status of many of the new personnel probably is designed to avoid drawing attention to growing Cuban investment.

Outside the Free Zone, the Cubans have invested heavily in the port facilities at Vacamonte, which since July 1980 have serviced Cuba's Pacific fishing fleet. The Panamanian Government has yet to formalize an agreement that would officially make Panama the Cuban fleet's home base. We believe between 25 and 36 ships are assigned to the fleet, including a large tanker and several processing ships.

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We believe that all Cuban commercial firms operating in Panama's Free Zone are joint ventures, and high Panamanian Government and military officials have significant investments or receive kickbacks, according to US military sources. These ventures enable Havana to bypass the US economic embargo, provide an important source of hard currency, and give Panamanian officials a vested interest in cooperating with the Castro regime.

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We believe, however, that Havana is unlikely to set a more aggressive policy toward Panama in the near to mid-term.

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since Torrijos's death, Castro has been

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### *An Alternative View of Fraccion/Tendencia*

*We believe it is highly unlikely that Panama's largest militant Marxist group, Fraccion/Tendencia, will directly threaten the stability of the regime over the next several years.*

*Nonetheless, the current activities, contacts, and political doctrine of Fraccion/Tendencia raise questions as to what events might permit it to sharply increase its influence.*

***The Risk of Fraccion/Tendencia Acting on Its Own.***  
*For Fraccion/Tendencia to secure substantial political influence on the basis of its own actions, the following would first have to occur:*

- *Impatience among more radical elements in the group would have to deepen considerably to offset what currently is a strong consensus among the current leadership—as part of a longrun revolutionary strategy—for cooperation with the Panamanian Government.*
- *The group would have to persuade Cuba and the USSR to provide substantially more funding, weapons, and logistic support; boost its membership significantly; and gain public domestic and international recognition and support.*
- *The National Guard would have to resort to more overt repression of radicals, causing polarization among a broad range of leftist elements in political, labor, and intellectual circles and in the government.*

*Under such circumstances, we believe Fraccion/Tendencia might establish guerrilla forces in remote mountain areas in the east and west, and install urban terrorist cells and front organizations in the*

*principal cities. These would challenge the government by classic terrorist actions, including destruction of economic facilities and the kidnaping and assassination of officials. In view of the anti-US focus of the organization, the Canal would also be an obvious target for sabotage. Such actions would be designed over the long term to provoke government repression, polarize society, discredit the regime internationally, and thereby bring down the ruling structure.*

***The Risk of Fraccion/Tendencia Exploiting Other Turmoil.***  
*A more plausible scenario would involve Fraccion/Tendencia's capitalizing on serious disorders that were not necessarily of its own making. For example, the group's strong appeal to students, teachers, and intellectuals and its control of Panama's largest leftwing student organization might enable it to take advantage of major student dissent. Because some members of Fraccion/Tendencia hold jobs in the bureaucracy, the organization might be able to blunt some of the government's efforts to respond to social disorder. The group's influence in organized labor is limited; in a period of declining economic conditions, however, it could exploit the unemployment issue in depressed rural areas as well as in the poor neighborhoods of Colon and Panama City. With the benefit of greater Cuban assistance, Fraccion/Tendencia—which presently publishes its own tabloid—might be able to expand its influence with the media and mount a large and effective propaganda effort.*

*At this juncture, however, even these actions would be difficult to sustain on any substantial scale because of the limited operational capacities of the group.*

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concerned about a possible anti-Cuban slant arising in Panamanian policy. The Cuban leader appears interested in maintaining good relations with a regime that is willing to play his political game—despite occasional setbacks—and that continues to provide him with important economic access to world markets through the Colon Free Zone.

As long as the Cubans retain this philosophy, we doubt that the Panamanian Government will directly challenge Havana's involvement in the region. We judge that Panama will work quietly with the United States and other regional actors to curb Cuban subversion in neighboring countries, particularly as this will naturally coincide with the general trend toward more moderate foreign policy under the guidance of Parades and de la Espriella. But in the words of one Guard officer, Panama will continue some cooperation with the Cubans to "keep them happy."

#### Implications for the United States

In overall terms, Panama-US relations are good and should improve under the new de la Espriella government as both countries pledge greater long-term economic and political cooperation. With regard to regional policy, we believe the Panamanians would prefer to provide the United States with greater diplomatic cooperation against Cuban activities in Central America, but only through a broad Latin American initiative, and at a minimal risk to themselves and their own image of nonalignment. One apparent catalyst for Royo's removal, for example, was his promotion of a new inter-American security arrangement that would include Cuba but exclude the United States, according to US Embassy sources. Some initiative—perhaps a regional organization comprised of democratic Central and South American countries—could aim at undermining Castro's efforts to destabilize the region without forcing Panama to confront Havana. How closely Panama might align itself with US policy in such an endeavor is unclear.

Government leaders still publicly support the Nicaraguan regime, continue to push for a negotiated settlement in El Salvador, and maintain a discreet distance from the provisional Salvadoran Government.

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Prospects for closer bilateral cooperation in other areas are much better, particularly on investment matters. According to the US Embassy, the outlook is favorable for Panama's negotiation of a bilateral investment treaty with Washington, under which Panama would offer "full guarantees" to US investors regarding exchange controls, transferability of capital, and arbitration of expropriation settlements and other investment disputes. The government also has been planning to create a new "one-stop" investment agency, which will include among its board members the president of the Chamber of Commerce in Panama. This agency would be designed to attract US, European, and Japanese investment in the production of exports to US markets.

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The implementation of the Canal treaties, meanwhile, continues smoothly for the most part, with some technical disagreements yet to be worked out in bilateral committees. As reflected in US Embassy reports, however, a key sore point for Panama remains the nature of US Public Law 96-70. The Panamanians regard the Congressional blueprint for implementation as a one-sided interpretation of the treaties—which was imposed after ratification and which they feel violates Panama's sovereignty. We believe that this issue is likely to continue to spawn occasional tensions with Washington, but the new Panamanian administration appears interested in dealing privately with treaty problems, in contrast to President Royo's habitual public grandstanding on the subject for domestic and Third World audiences.

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Regarding multilateral issues involving the United States, we judge that Panama will continue to guard jealously its right to disagree publicly with the United States. Since the early 1970s, Panama consistently has embraced Third World issues and established diplomatic and commercial ties with a host of non-aligned and radical states, as well as with many

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Communist countries. In our judgment, Panamanian leaders are likely to be hesitant about significantly altering this legacy of Torrijos. Although the new government is likely to concentrate more on issues that are important to national interests and avoid championing causes that are bothersome to Washington, Panama probably will continue to regard its ties to some US adversaries as helpful to its image of neutrality and useful as a lever for extracting concessions from Washington. [REDACTED]

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In practical terms, we believe, the Panamanians attribute little concrete importance to "non-Western" ties. The country invariably has benefited little in economic terms from these associations, and—aside from settlement of the Canal question—its political gains often have been unexceptional or transitory. Thus, we believe that Panama's increasing reliance on Western economic assistance and investment, combined with the more conservative orientation of the regime, argue strongly for continued moderation in foreign affairs overall and a closer working relationship with the United States. [REDACTED]

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The issue of political transition in Panama could cloud this otherwise bright prospect for Panamanian-US relations. We believe that Panamanian opposition leaders as well as international observers will look to the United States to encourage the regime to maintain its timetable for democratization, while the government—striving to improve bilateral ties—will resent any US meddling in this essentially internal matter. Panamanian leaders necessarily face a dilemma in any reassessment of the risks of a democratic opening versus the dangers of attempting to stifle one already begun. Any significant attempt to retreat from the commitment to a political transition would pose a similar dilemma for US policy, given international perceptions that the United States stands to work more closely with and have greater influence over current Panamanian leaders. Various expected events—General Paredes's retirement from the Guard, the coalescing of opposition political forces, and Colonel Noriega's assumption of command of the Guard, for example—represent potential obstacles to the transition. [REDACTED]

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